EXPLICIT SUPPORT - LONG TERM SUPPORT (LTS)

ISSUES

1. FUNDING OF LTS
   - BULK BILL DIRECTLY TO IXCs
2. POTENTIALLY EXPAND THE BASE OF RECEIVERS
   - COMPETITION
   - RATE REBALANCE

EXPLICIT SUPPORT - TELECOMMUNICATIONS RELAY SERVICE (TRS) FUND (IS)

ISSUES

- Inappropriate to double count wholesale interstate revenues (i.e. including access revenue) in the calculation of TRS Fund contribution

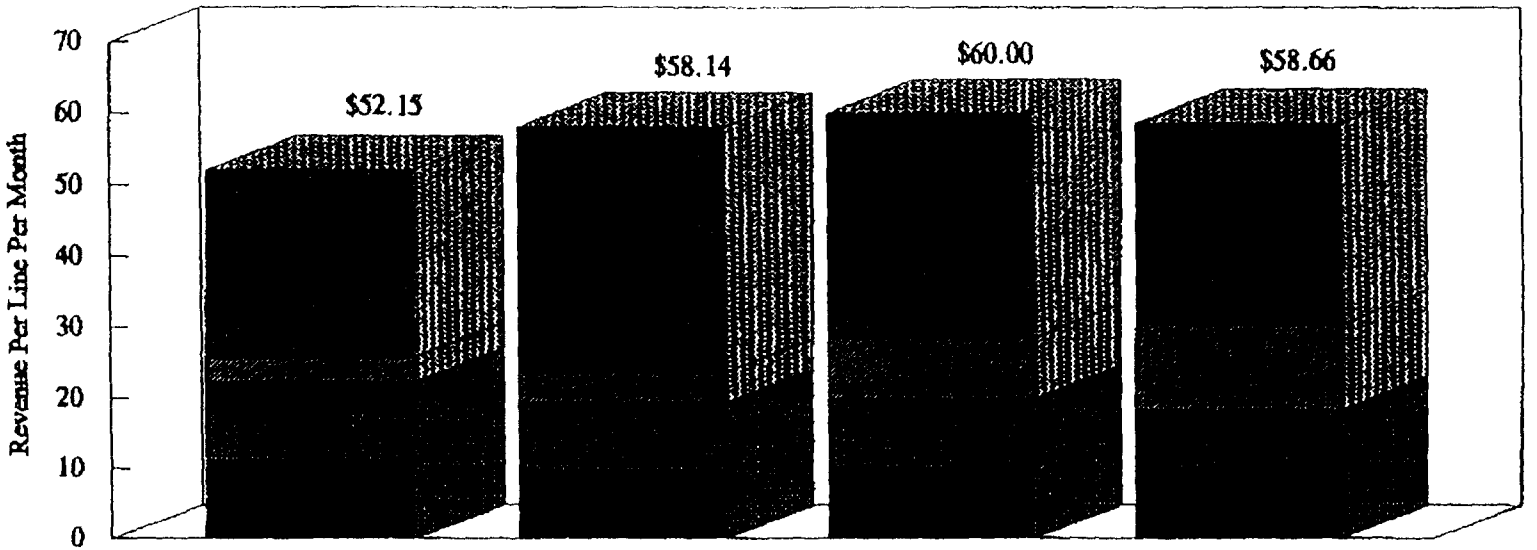
  - Should be based on retail revenues

EXPLICIT SUPPORT - LIFELINE & LINK-UP

ISSUES

- Potentially expand the base of receivers / payers
  - Competition
  - Rate Rebalancing

SWBT Residence Average 1993 Revenue Per Line Per Month*



	Metro	Non-Metro - Large	Non-Metro - Med	Non-Metro - Small
Loc-Non Opt.	11.09	9.67	10.17	9.56
Loc-Opt.	7.61	6.17	6.22	5.16
BUCL	3.50	3.50	3.50	3.50
IntraLATA Toll**	3.59	4.29	8.65	12.19
InterLATA Toll**	26.36	34.52	31.46	28.25

Non-Metro Classifications: Large, over 25,000 lines; Medium, 5000 - 25,000 lines, and Small, under 5,000 lines

* Represents average access revenue per line for Business and Residence

** The amounts shown were derived using average total switched access revenue per line, by wire center, divided by .4. The .4 factor represents an estimate of the percent access expense to total toll revenue.

METRO AND NON-METRO RESIDENCE CUSTOMERS SPEND SIMILAR AMOUNTS FOR TELEPHONE SERVICE. CHARGES TO NON-METRO CUSTOMERS FOR TOLL SERVICES REPRESENT A LARGER PORTION OF SERVICE CHARGES THAN SUCH CHARGES REPRESENT FOR METRO CUSTOMERS.

THE COST OF UNIVERSAL SERVICE: DISMANTLING THE INEFFICIENCY MYTH

Summary

Some of the issues surrounding the future of "universal service" are moving toward consensus. Among those issues are recognition that 1) increasing competition in telecommunications markets is causing the traditional regulatory paradigm for achieving and maintaining universal service to become unsustainable; and 2) new entrants and competitors in these markets must participate in the cost of providing ubiquitously available, reasonably priced telecommunications service.

Despite the consensus forming on the issues noted above, there remains considerable disagreement on the specifics of *how* this social benefit will be sustained and *who* will pay *how much*. Many parties to the ongoing debate on universal service argue that they are willing to contribute to the cost of providing universal service, but not to supporting the embedded costs incurred by incumbent LECs. Conceptually, these parties argue that any cost above the direct cost of providing service to consumers is "inefficiency" on the LEC's part, and therefore need not be supported by any service provider other than the incumbent LEC. In reality, however, there are regulatory obligations imposed upon the incumbent LECs which create operating costs and / or investments in telecommunications facilities which may not be associated with serving current customers or which may provide service quality above that which a nonregulated business would provide. The obligations extend to all customers of the carrier of last resort, regardless of whether or not inherent efficiencies exist. These are clearly not LEC inefficiencies; they are costs imposed by regulation and law which extend benefits to consumers beyond simply having service ubiquitously available (universal service). These benefits were extended under the paradigm that allowed the recovery of some amount of costs to be postponed into future periods with assurance from regulators that recovery could be realized through future rates.

The problem today is twofold. First, regulators can no longer hold up their end of the social contract. The ability of regulators to assure recovery of legitimate costs through future rates is quickly deteriorating due to the growth of competition. Second, new competitors neither share those regulatory requirements nor acknowledge the necessity that the LECs recover legitimate costs associated with network investments made under the historical social contract. It is important for public policy makers to understand that the cost of extending facilities to high cost areas, as well as serving all customers regardless of income (universal service), is only a small part of the historical paradigm which needs to be reconciled. There are substantial costs which the LECs have sunk, and will continue to incur, as part of complying with overall regulatory requirements imposed on the carrier of last resort. These costs must likewise be reconciled, either by proper compensation for the carrier fulfilling these obligations, sharing of obligations, revision of the obligations, or a combination of methods.

Descriptions of Regulatory Obligations

Following is a description of cost-creating obligations which regulators have traditionally imposed on LECs that fulfill carrier of last resort obligations. This description is not all-inclusive.[1] For example, it does not include requirements for retention of records and maps of business operations, obligations regarding customer information and education, nor the various reporting requirements to regulatory agencies for purposes of monitoring.

Readiness to Serve: State regulators have imposed standards with respect to the maximum length of time a customer must wait for telephone service after they have placed an order. The common standard is four to five days from application (customer places an order) to completion (customer has the service they ordered), with some leeway permitted for unusual circumstances. In order to meet such a standard, the LEC must place facilities in advance of customer demand; therefore, the facilities are placed in spite of some amount of uncertainty regarding both the timing of when demand will materialize and the amount of demand. For example, LECs will build telephone plant for a subdivision of homes in advance of a "critical mass" of subscribers which would make it economic to serve, and will size the facility such that most or all of the potential demand can be served without a subsequent build-out. The effect of such circumstances is for the LEC to have idle plant investment at any given time. In addition, the standards do not vary sufficiently based on geographic region to avoid creating proportionately more inefficiency in rural or low density areas.

Specific requirements for residence installations in states served by SWBT are as follows:

- Arkansas: 95% of installations served within five working days where facilities are available. 95% of installations within a base rate area served within 30 days even where facilities are not available.

- Missouri: 95% completed within three working days; 95% commitments met on due date; 95% of service upgrade requests completed within 30 days.

- Oklahoma: 95% completed within four working days within the base rate area; 95% completed within seven working days for rural service outside base rate area; 98% of commitments met.

- Texas: 95% of basic local service completed in five working days; 90% of non-basic service completed in five working days; 90% of commitments met.

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[1]Not included in this paper is the recent adoption of new minimum service standards rules by the Oklahoma Corporation Commission. SWBT has filed with the Oklahoma Supreme Court for a stay of the OCC's order. The OCC's new standards would require significant upgrades of infrastructure in rural areas within two years.

Maintenance Service Objectives and Intervals: Service objectives generally ensure that the quality of consumers' telephone service is both acceptable and consistent, regardless of the geographic location of the customer. Regulatory agencies typically establish standards for quality that more than meet a level of acceptability from a customer's point of view. Standards set in SWBT's states are as follows:

Trouble Reports per 100 Lines

No. of Access Lines	Arkansas*	Oklahoma	Missouri**	Texas***
300 lines or less	5.0	12.0	6.0	6.0
301 to 2000 lines	5.0	9.0	6.0	6.0
over 2000	5.0	7.0	6.0	6.0

* Arkansas: exchanges of 2000 lines or less evaluated on a three month average.

** Missouri: Surveillance level on the frequency of trouble reports 8.0 per 100 lines. Surveillance level indicates a threshold for investigation and corrective action.

*** Texas: Surveillance level on the frequency of trouble reports 8.0 per 100 lines per exchange for a period of 3 consecutive months.

The standards for repairing customer trouble reports can vary both from state to state and by type of customer. Generally, however, state regulators impose standards that require a customer's line to be repaired within 24 hours of the time the customer reports trouble, again with a certain amount of leeway for unusual circumstances (such as major storms, unavoidable casualty, etc.). Clearly, such a requirement imposes certain staffing levels and associated expenses such as vehicles and tools. These requirements do not vary between areas such as urban and rural, making it virtually impossible to generate efficiencies in low density areas and meet the regulatory standards. Specific requirements for repair intervals for residence customers in SWBT's states are:

- Arkansas: 95% of local service outages cleared within 24 hours.
- Missouri: 90% of out-of-service trouble not requiring unusual repair cleared within 24 hours. 95% of commitments met.
- Oklahoma: 90% of service interruptions cleared the next working day.
- Texas: 90% of out-of-service trouble cleared within 8 working hours. Surveillance level 85% in any exchange for a period of 3 consecutive months.

Regulators require high levels of customer access to the telephone company's service centers, regardless of peak load times or other variables. This creates a need to staff for peak load times in order to meet the standard. These service levels may or may not actually represent customer expectations in the absence of regulatory mandates.

Repair Bureau Accessibility:

Answer Time	Arkansas	Oklahoma*	Missouri**	Texas**
20 Seconds or Less	100%	75%	90%	90%

* Objective: 85%.

** Includes both business office and repair bureau. Texas: surveillance level 85% for any answering location for 5 days in a given month.

Access to Operators:

	Arkansas	Oklahoma*	Missouri	Texas**
Toll and Assistance	100% w/in 10 seconds	80% w/in 10 seconds	89% w/in 10 seconds. Automated average answer time 2.8 seconds	85% w/in 10 seconds or average answer time 3.3 seconds
Directory Assistance	100% w/in 15 seconds	75% w/in 10 seconds	NA	85% w/in 10 seconds or average answer time 5.9 seconds

* Oklahoma: Toll: Objective: 90%. Directory assistance: Objective: 85%.

** Texas: surveillance level 80% at any answering location for 4 days in a given month.

Quality of Service (technical quality standards):

- Arkansas:
  Dial Tone Delay: 3 seconds or less
  Inter-office Traffic Capacity: percentage of call completion without busy:
    toll calls between exchanges: 97%
    inter-office local calls: 95%
    EAS call completion: 94%
  Intra-office: 98% of test calls within industry standard
  Transmission Standards: 95% of circuits comply with engineered limits

- Oklahoma:
  Dial Tone Delay: 95% within 3 seconds.
  Intra-office Call Completion: 90% without busy
  Inter-office Traffic Capacity:
    local: 95% of calls presented to trunk group not encounter busy.
    toll: 97% not encounter busy.
  Transmission: 90% within limits

- Missouri:
  Dial Tone Delay: 98% within 3 seconds
  Local Call Completion: 98% without blockage or busy
  Interexchange Call Completion: 98% without blockage or busy

- Texas:
  Dial Tone Delay: 98% within 3 seconds, or 96% within 3 seconds during busy hour.
  Intra-office Call Completion: 98% completion without blockage or busy
  Availability of switching facilities: 99.99% or no more than 53 minutes per year total unscheduled outage.
  Transmission: 95% of interoffice and direct distance dialed measurements within limits. Noise and loss limits on subscriber and trunk circuits.

Publication of Directories:

- Arkansas: annual
- Oklahoma: annual
- Missouri: at regular intervals
- Texas: annual

Conclusion

Regulators have established service quality standards for regulated telephone companies to assure that the companies would not only make service widely available, but that the quality of that service would not suffer from the single supplier paradigm. Franchise responsibilities, including quality of service standards, are consistent with receiving certain rights as an "exclusive" provider. When there is more than one provider, regulators must be careful not to impose unnecessary cost on the overall service, nor to unreasonably handicap one provider over another. The following principles should be adopted regarding franchise obligations in a multi-provider environment.

- When alternative local service providers are certificated, quality of service standards should be the same for all providers, i.e., they should not be more stringent for the incumbent LEC.

- Incumbent LECs should be allowed to recover past costs of meeting quality of service standards through rate deaveraging and rebalancing and, as needed, support from an explicit support mechanism.

- On a going forward basis, carriers fulfilling obligations to serve must be adequately compensated. In the alternative, the obligations must be shared or revised.

- In the future, competitive response to customer service needs and requirements should be the determinant of quality of service standards.

Competitive Access Provider	City	Year Announced
American Communications Services, Inc. (ACSI)	Austin	1994*
	Fort Worth	1994*
Brooks Fiber Properties	Oklahoma City	1994*
City Signal	Austin	1993*
Communications Transmission Group, Inc. (CTGI)	Austin	1993*
Fibercom	San Antonio	1992
FiberNet	St. Louis	1993*
Kansas City Fibernet	Kansas City	1986
MCI Metro	Dallas	1994*
	Houston	1994*
	St. Louis	1994*
Metro Access	Austin	1994*
	Fort Worth	1994*
Metropolitan Fiber Systems (MFS)	Austin	1993*
	Dallas	1990
	Houston	1989
	St. Louis	1992
Multimedia Hyperion	Wichita	1993*
Phonoscope	Houston	1989
PSO Metrolink	Tulsa	1989
Teleport Communications Group (TCG)	Dallas	1990
	Fort Worth	1994*
	Houston	1990
	Oklahoma City	1992
TCG America	St. Louis	1993
Time Warner Austin Communications	Austin	1994*
Time Warner Communications of Houston	Houston	1994*

*Construction Not Complete